

[REDACTED]
[REDACTED]
E:EO:T

MAR 26 1990

CERTIFIED MAIL

Dear Applicant,

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code of 1986.

The information submitted indicated that you were incorporated on [REDACTED], under the laws of the State of [REDACTED].

Your stated purposes are to provide a summer vacation site and campgrounds for the current members including maintained roadways, electric power, clean water, responsible sewage disposal, recreational activities, and securities for their personal property during the winter season..

The organization was formed in [REDACTED], when the present campers bought the campgrounds through bankruptcy court. The campgrounds had been formerly offered to the campers under the terms of a 99 year lease for the various lots. Application for membership in the organization and choice of lots are embodied in a single form and each member must purchase at least one lot. The purchased lots are used for summer vacation and camping sites. When an agreement to purchase a lots is executed the member pays the organization an amount based on the lot value and thereafter pays annual fee or dues. The organization also rents lots to nonmembers who have the option of joining the club and having a portion of their rental fees applied to the down payment on the lot. In addition, the organization aggressively advertises its lots to the general public in various flyers.

Income is derived primarily from initial payments on lots from members, annual dues, and rental fees from nonmembers. Expenditures are for maintaining and improving the camping grounds, salaries, and administrative affairs of the organization.

Section 501(c)(7) of the Internal Revenue Code exempts from Federal income tax clubs organized for pleasure, recreation and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder.

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname	[REDACTED]	[REDACTED]	[REDACTED]			
Date	3-2-90	3/5/90	3/26/90			

Section 1.501(c)(7)-1(a) of the Income Tax Regulations states that the exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues and assessments.

Section 1.501(c)(7)-1(b) of the Income Tax Regulations states that a club which engages in business, such as selling real estate, is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes and is not exempt under section 501(a) of the Code.

Revenue Ruling 68-168, published in Cumulative Bulletin 1968-1, page 269, deals with an organization that was formed to develop a lake and adjacent areas to provide facilities for the pleasure and recreation of its members. The organization leased lots to its membership on a long term basis to be used for summer cabins permanent residences or left vacant. The primary source of income was initial payments and annual rental. It was held that the subdividing and leasing of lots constitutes engaging in business. It was further held that the conduct of such real estate activity whether with members only or with the general public is not incidental to or in furtherance of any purpose covered by section 501(c)(7) of the Code. Accordingly, it was held that the organization did not qualify for exemption from Federal income tax under section 501(c)(7) of the Code.

Revenue Ruling 69-220, published in Cumulative Bulletin 1969-1, page 154, holds that a social club that receives a substantial portion of its income from the rental of property and uses such income to defray operating expenses and to improve and expand its facilities, does not qualify for exemption under section 501(c)(7) of the Internal Revenue Code of 1986.

Based on the data submitted and on the Internal Revenue Code, Income Tax Regulations and Revenue Ruling as cited in this letter, it is therefore, concluded that you do not qualify for tax-exempt status as an organization described in section 501(c)(7) of the Internal Revenue Code. This decision is based on the fact that the primary activity of your organization is the selling or leasing of lots to your members and the general public at market rates. This is evidenced by the fact that the majority of your organization's support comes from this activity and the fact that your organization aggressively advertises its property, in direct competition with other organizations offering the same services. The conduct of such real estate activity in the manner described above constitutes engaging in a business, which is not in furtherances of any purpose covered by section 501(c)(7) of the Code.

[REDACTED]

You are required to file Federal income tax returns on Form 1120. All past due returns should be filed with this office within 60 days from the date of this letter, unless a request for an extension of time is granted. File returns for later years with the appropriate service center indicated in the instructions for those returns.

If you do not accept our findings, we recommend that your request a conference with a member of our Regional Office of Appeals. Your request for a conference should include a written appeal giving the facts, law, and any other information to support your position as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a conference. The conference may be held at the Regional Office, or if you request, at any mutually convenient District Office. If we do not hear from you within 30 days of the date of this letter, this determination will become final.

Sincerely yours,

[REDACTED]
[REDACTED]
District Director

Enclosure: Publication 892